

Completing the Foreign Buyer Instruction Letter

The numbers correspond to those appearing on the foreign buyer instruction letter

This worksheet is a guideline to help your company consider fully, the many aspects of transacting under Letters of Credit. Once completed, you may wish to draft a letter on your company letterhead, incorporating all the points marked, rather than sending this worksheet to your customer. This will allow you to highlight important points, and omit those, which are not applicable to your transaction. Remember, any changes to an LC once it has been issued result in amendment charges. Always state the current UCP [now 600] that applies.

1. This informs the foreign buyer and his bank where to send the Letter of Credit (LC), once it is issued. Ideally the LC will be issued directly to your bank. In the even that the LC is not directed per your instructions, it is possible to revise it through a process called amendments (added fees). The terms/conditions contained in the LC are most important. Review the LC with your bank's international officer.
2. As the Beneficiary, you must decide whether to keep the risk of the foreign bank and country (Advised) or pass this risk on to your bank (Confirmed). Stated in this way, you (Beneficiary) retain control of whether or not to have your LC 'confirmed' and control of which bank will do this. Additionally, this statement requires the advising bank to contact you before it adds its confirmation to the credit...giving you the opportunity to inquire the same of your bank, if they are not the first advising bank. In the even that the LC does not pass the bank's review for confirmation, you retain the option of asking the first advising bank to confirm the LC. Understand, with confirmation there are additional banking charges for the bank to assume the foreign risk. Call your bank's international officer for a price quote.
3. State the name/address of your company (Beneficiary) as it will appear on the documents
4. Self-explanatory [see also #17, #18 – re. fees]
5. Self-explanatory
6. **About** allows a tolerance in the LC amount and shipment amount of +/- 10%
Other allows a specific tolerance to be stated (i.e. +/- 8%)
7. This information reveals where LC payment is to be claimed. Often, the Issue Bank (buyer's bank) keeps this function for itself. Sometimes, a U.S. Reimbursing Bank is named. It is possible, too, that the Advising Bank is the designated paying bank.
8. **At Sight** means payment upon presentation of documents, in order, to the bank on which the drafts are to be drawn. This could be your bank, the issue bank or a third party bank. **'At ___days after Sight'** means payment a specified number of days from the date on which the bank finds documents in order. Again, the determining bank is the bank on which drafts are drawn. **'At ___days from the date of the transport document /forwarder's cargo receipt'** means payment a specified number of days from the date appearing on the transport/shipping document, once documents are found to be in order by the bank on which drafts are drawn. **Other** might be mixed payment terms, as specified. For example, 90 percent against presentation of compliant documents and 10% 60 days later.

9. Description of the goods, as it should appear on the commercial invoice. Do not be too specific, and avoid excessive detail. It is suggested that you avoid using weights/sizes. If details are necessary, be sure of the information's accuracy.
10. INCOTERMS. The chosen INCO term (shipping term) determines what costs and responsibilities are yours in the transaction, and implies which documents you will be required to obtain. Incoterms also determine when ownership passes from seller to buyer with important implications for insurance coverage. Consult your freight forwarder or international banker if you are not familiar with the Incoterms 2000.
11. Self-explanatory. Indicate a specific date, or agreed time frame from the LC issue date.
12. Self-explanatory. Indicate a specific date, or agreed time frame from the latest shipping date.
13. A typical time frame is 21 days. You must have enough time for documents to be created and presented to the bank. Allow additional time if any documents must be consularized or legalized, or if an inspection certificate issued by S.G.S. or similar inspection service must be prepared. Expiration should be the same number of days after the latest shipping date, at the counters of the negotiating bank.
14. You may check with your Freight Forwarder to find out which documents are required for customs clearance into the country of your buyer. Also, be sure that the documents to be presented are consistent with the Incoterm chosen. For example, if you are shipping Ex-works Akron, Ohio, do not agree to present Marine Bills of Lading and a Marine Insurance Policy. These documents are inconsistent with the Ex-works Incoterm.
15. Transshipment refers to the unloading and re-loading of a container during its transit/voyage.
16. Self-explanatory.
17. Self-explanatory.
18. These are finance charges, relating to payment terms other than 'At Sight.'
19. Check this box if you will be assigning a portion of this LC to sub-suppliers.

Caution to inexperienced users of Letters of Credit: Letters of Credit afford the best payment protection, after cash in advance. You must remember, though, that banks pay against review of documents, not goods. Therefore, if documents do not agree in every respect to the terms/conditions set forth in the letter of credit, the payment protection afforded by the LC is not assured. Payment will not be remitted until such discrepancies are approved/accepted by the issuing bank and the Applicant (buyer). Additionally, discrepancies can result in additional charges and delay, or refusal of payment.